

Message Text

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FOL LISBON 3203 SENT ACTION SECSTATE INFO ANKARA ATHENS BONN
BRUSSELS COPENHAGEN LONDON LUXEMBOURG OSLO OTTAWA PARIS
REYKJAVIK ROME THE HAGUE USNATO OECD PARIS APR 28, 1978
REPEATED TO YOU QUOTE

C O N F I D E N T I A L LISBON 3203

DEPT PASS TREASURY FOR SYVRUD

USEC

EO 11652:HGDS

TAGS: ECON, EFIN, PO

SUBJECT: IMF AND PORTUGAL REACH AGREEMENT

1. SUMMARY: THE GOVERNMENT OF THE CENTRAL BANK INFORMED
ME TODAY THAT THE IMF TEAM AND THE GOP HAD REACHED AGREE-
MENT ON THE TERMS OF A STANDBY. THE FUND MISSION WILL
RETURN TO WASHINGTON OVER THE WEEKEND AND BEGIN WORK ON
ITS REPORT TO THE IMF BOARD WHICH THEY EXPECT TO COMPLETE
WITHIN TWO WEEKS. THE GOP WILL ANNOUNCE THE MAIN
ELEMENTS OF THE STANDBY AGREEMENT ON FRIDAY, MAY 5. SILVA
LOPES HOPES THAT THE IMF MANAGING DIRECTOR'S LETTER TO
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THE U.S. TO FULFILL THE REMAINING CONDITIONS PRECEDENT
TO OUR LOAN CAN BE OBTAINED NEXT WEEK SO THAT PORTUGAL
CAN BEGIN DRAWING DOWN THE LOAN THE FOLLOWING WEEK. END SUMMARY.

2. ACCORDING TO SILVA LOPES, THE MAIN ELEMENTS OF THE
STANDBY ARE AS FOLLOWS:

(A) A CEILING ON CREDIT EXPANSION OF 135 BILLION

ESCUDOS.

(B) AN INCREASE IN THE CENTRAL BANK REDISCOUNT RATE OF FIVE PERCENTAGE POINTS, IN THE TIME DEPOSIT RATE OF FOUR PERCENTAGE POINTS, AND IN THE RATE TO PRIME BORROWERS OF 3.5 PERCENTAGE POINTS. THIS WILL BRING INTEREST RATES TO THESE THREE CLASSES TO 18, 20 AND 21 PERCENT RESPECTIVELY.

(C) A CURRENT ACCOUNT DEFICIT TARGET OF ONE BILLION DOLLARS, 900 MILLION OF WHICH IS COVERED BY EXISTING CREDITS AND 100 MILLION BY A LOSS OF FOREIGN EXCHANGE RESERVES OR ADDITIONAL BORROWING.

(D) AN EXCHANGE RATE DEPRECIATION OF ABOUT 1.2 PERCENT A MONTH ON THE AVERAGE OVER THE 12-MONTH STANDBY PERIOD (APRIL TO APRIL). THERE WILL BE AN INITIAL DEPRECIATION OF FIVE PERCENT.

3. SILVA LOPES SAID THAT HIS GREATEST WORRY WAS THE IMPLICATIONS OF THE CREDIT CEILING. IT WILL IMPLY A 30 PERCENT CUT IN CREDIT IN REAL TERMS AS COMPARED TO LAST YEAR. IN ADDITION HE POINTED OUT THAT THE NEEDS OF THE PUBLIC SECTOR FOR CREDIT WILL MEAN AN EVEN GREATER PROPORTIONAL CUT FOR THE PRIVATE SECTOR, ON THE ORDER OF 33 PERCENT, WHICH HE FEARS COULD HAVE SERIOUS SOCIAL AND POLITICAL REPERCUSSIONS.

4. SILVA LOPES' VIEWS ON THE LONGER TERM OUTLOOK ARE REPORTED IN SEPTEL. BLOOMFIELD UNQUOTE CHRISTOPHER
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